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The Role of Banking in Supporting SDGs through Inclusive and Sustainable Finance

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Abstract

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Banking plays a crucial and strategic role in promoting both economic and social development by mobilizing and allocating funds for various purposes, including business capital, investment, and consumption. The relevance of banking to the achievement of the Sustainable Development Goals (SDGs) continues to grow, particularly with the increasing adoption of sustainable finance practices that emphasize environmental, social, and governance (ESG) aspects. Banks can contribute significantly to SDGs through multiple approaches, such as financing sustainable projects, developing innovative financial products, promoting financial inclusion, and implementing responsible banking principles that prioritize societal welfare. Furthermore, strategies focusing on Micro, Small, and Medium Enterprises (MSMEs), productive low-income communities, and the enhancement of digital ecosystems serve as essential pillars to support equitable wealth distribution. By prioritizing financial literacy, technological innovation, and multi-stakeholder collaboration, banks are capable of generating tangible positive impacts on national development while simultaneously creating added value for their business operations. This study aims to analyze the strategic role of banking in supporting SDGs through a comprehensive literature review approach.

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1. Introduction

Banking is one of the central institutions in the modern financial system, acting as a collector of funds from the public and distributing them to parties who need capital for various purposes, both investment and consumption. This function does not merely focus on financial intermediation but also acts as a key driver of national development by providing access to business capital, creating jobs, and supporting other economic activities related to consumption and investment. In other words, banking can be likened to the heart of the economy, which plays a role in flowing funds to all sectors of economic, social, and development life (Widarwati et al., 2022). This strategic role becomes even more important when associated with the sustainable development agenda launched through the Sustainable Development Goals (SDGs) by the United Nations (UN).

The SDGs themselves are a global agenda agreed upon in 2015, with the aim of creating a balance between economic development, environmental sustainability, and social inclusion until 2030. This agenda consists of 17 interconnected goals, ranging from poverty eradication, providing quality education, promoting gender equality, to action on climate change. Banking holds a crucial position in supporting the achievement of these goals through various sustainable financing and investment instruments. Banks can channel funds for environmentally oriented projects, such as renewable energy, clean water provision, and sustainable transportation, while also strengthening financial inclusion that provides direct benefits to the poor and MSME actors (Ozili, 2022).

In the context of the modern financial industry, the application of Environmental, Social, and Governance (ESG) principles has become an important framework to direct bank operations toward more sustainable practices. ESG is not just an instrument to enhance the bank's reputation, but also serves as a long-term risk mitigation strategy, especially in facing the challenges of climate change and social inequality. Research by Yiming et al. (2024) shows that the implementation of ESG in financial practices can improve the bank's resilience to economic crises, while also expanding its customer base through increased public trust in financial institutions.

In addition to ESG, financial inclusion is a key factor connecting banking with the achievement of the SDGs. According to World Bank data, millions of people in developing countries still do not have access to formal financial services, which limits their opportunities to improve their well-being and productivity. Banks have a social responsibility as well as a business opportunity to expand access to financial services through digital innovation, the development of affordable products, and financial literacy programs (Octaviano, 2024). This approach allows banking to support poverty reduction (SDG 1), promote gender equality (SDG 5), and advance inclusive economic growth (SDG 8).

Furthermore, the link between banking and the SDGs is also reflected in its role as an agent of green economic development. Investments directed at environmentally friendly projects not only reduce the negative impact of industries on the climate, but also create new business opportunities that are economically profitable. Chen et al. (2022) show that banks that integrate green financing into their loan portfolios can improve long-term performance while making a real contribution to climate change mitigation (SDG 13).

Nevertheless, the contribution of banking to the SDGs faces various challenges, including the limited comprehensive regulations related to sustainable finance, credit risk in MSME financing, and the need for large investments in the development of digital technology. Therefore, it is important for banks to develop strategies that are in line with the SDGs without sacrificing financial stability. Through a literature study approach, this research aims to identify the strategic role of banking in supporting the achievement of the SDGs, understand the challenges faced, and explore strategies that can be implemented so that the bank's contribution to sustainable development can be effectively optimized.

2. Literature Review

2.1. Sustainable Finance in Banking

Sustainable finance has become an important topic at the global level because it links the banking sector with the sustainable development agenda. Chen et al. (2022) emphasize that banks can act as a catalyst for economic change by channeling funds to environmentally friendly sectors, including renewable energy and green transportation. This concept is in line with the principles of green finance, which emphasizes the need to include sustainability in the management of banking loan and investment portfolios. The implementation of sustainable finance not only has a positive impact on the environment, but also helps increase the competitiveness of financial institutions. This occurs through the strengthening of the bank's reputation and its ability to attract investors who have a concern for Environmental, Social, and Governance (ESG) aspects (Istudor et al., 2022).

From a regulatory perspective, various initiatives have been made to encourage sustainable financial practices. For example, the Green Bond Principles and the Sustainable Banking Network provide clear guidelines for banks to adopt practices that are in line with the SDGs goals. The idea of a green economy can be an engine for driving growth and economic development as a pillar for implementing sustainable development for the transition process towards a low-carbon and green economy. Here, too, the Green Economy plays a role in supporting the achievement of the Sustainable Development Goals (Latisha & Dirkhareshza, 2024). By following these guidelines, banks not only play a role as an intermediary institution, but also as a development agent that drives industrial change toward a green economy. The existence of a regulatory framework and these global principles also helps banks in assessing the environmental and social risks of investment activities, so that they can maintain long-term financial performance while contributing to the sustainability of the planet.

2.2. Financial Inclusion as a Pillar of SDGs Achievement

In addition to sustainable finance, financial inclusion is a very crucial aspect in linking the role of banks with the achievement of the Sustainable Development Goals (SDGs). According to Octaviano et al. (2024), public access to formal financial services opens up wider economic participation opportunities, while also increasing the productivity of Micro, Small, and Medium Enterprises (MSMEs) and reducing the level of social inequality that occurs in society. The financial inclusion program not only includes the provision of financial products that are tailored to the needs of low-income people, but also involves the use of digital technology to expand the reach of banking services to areas that were previously difficult to reach. In addition, financial literacy is an important component so that people are able to use financial services optimally and responsibly.

A study by Ozili (2022) confirms that countries that have successfully developed financial inclusion through digital banking show a significant increase in the achievement of SDG 1 (no poverty) and SDG 8 (decent work and economic growth). Thus, financial inclusion is not only relevant from a social perspective, but also has a direct impact on overall economic stability. The expansion of access to financial services allows the poor to participate more actively in economic activities, improves their ability to manage capital, develop businesses, and opens up opportunities for MSMEs to grow more productively and sustainably. Therefore, banks that consistently focus their strategy on financial inclusion have a strategic role in creating equitable social welfare, while also strengthening the foundation of an inclusive, resilient, and sustainable national economy.

3. Methods

This research applies a literature study method as the main approach, with the aim of analyzing and evaluating various previous studies, scientific journal articles, and relevant reports related to the role of banking in supporting the achievement of the Sustainable Development Goals (SDGs). The selection of this literature study method was made because it is considered capable of providing a comprehensive picture of the dynamics, roles, and contributions of the banking sector in the context of sustainable development, both from economic, social, and environmental aspects. The literature analyzed includes international and national publications published. These sources discuss strategic issues that include sustainable finance, Environmental, Social, and Governance (ESG) principles, financial inclusion, and various banking strategies and innovations aimed at supporting the achievement of the SDGs as a whole. In its implementation, literature analysis is carried out by identifying the main themes that emerge from the various studies and articles reviewed, comparing the findings of previous studies, and drawing relevant conclusions related to the strategic role of banking in promoting sustainable development.

This approach also allows researchers to assess the opportunities that can be utilized by banks in developing products, services, and policies that are in line with sustainable development goals, as well as evaluating the challenges and obstacles faced in implementing these sustainability strategies. In addition, the literature study method allows this research to present an analysis that is both descriptive and analytical, so that it not only describes the current situation, but also interprets existing data and findings to provide a deeper insight. With this approach, the research is able to compile a conceptual framework that supports the development of theory and practice in the banking sector, and makes a significant contribution to the formulation of policies that can strengthen the role of banks in supporting the SDGs. This method is considered effective in providing a comprehensive picture of how the banking sector can function as a development agent, while also highlighting the relevant strategies, opportunities, and challenges in achieving sustainable development goals optimally.

4. Results

The results of the literature study conducted show clearly that banking has a very strategic and fundamental role in supporting the achievement of the Sustainable Development Goals (SDGs), especially through two main, complementary pathways, namely sustainable finance and financial inclusion. Sustainable finance acts as an important mechanism that allows banks to channel their financial funds and resources to various sectors that support green and environmentally friendly development. This includes, but is not limited to, financing for renewable energy projects, efficient water resource management, sustainable transportation, and various industrial projects that prioritize environmental sustainability. By channeling funds to environmentally friendly sectors, banks not only contribute to protecting the planet, but also build a more stable investment portfolio in the long term because environmental-related risks can be minimized.

Meanwhile, the second pathway, financial inclusion, focuses on expanding access for the public, especially poor communities, vulnerable groups, and MSME actors, so that they can obtain formal financial services (Bhegawati & Novarini, 2023). This wider access allows people to use banking products and services that suit their needs, including savings, microcredit, digital payment services, and various other innovative financial products. Thus, financial inclusion indirectly encourages local economic growth, increases the productivity of MSMEs, and helps reduce the social and economic inequality that has been an obstacle to equitable welfare. The combination of these two pathways sustainable finance and financial inclusion makes banking a development agent capable of creating economic development that is both sustainable and inclusive. The research results by Istudor et al. (2022) confirm that banks that actively adopt Environmental, Social, and Governance (ESG) practices show superior financial performance compared to banks that have not yet implemented ESG principles.

This indicates that the integration of ESG principles is not only ethical or normative, but also has a real impact on the profitability, stability, and competitiveness of banks in the global market. The application of ESG encourages banks to manage social, environmental, and governance risks more efficiently, which in turn increases the trust of stakeholders, be they customers, investors, or regulators. By implementing stronger and more effective risk management strategies, banks are able to navigate market uncertainties with greater resilience, ensuring that their operations remain stable even during periods of financial volatility. Improved risk management not only strengthens internal organizational stability but also enhances the institution's credibility and reliability in the eyes of clients and investors.

Furthermore, banks that actively incorporate sustainability considerations into their risk frameworks can attract and expand a customer base that values environmental, social, and governance (ESG) principles, fostering long-term loyalty and engagement. This integration of risk management and sustainability awareness allows banks to align financial performance with societal impact, ultimately contributing to both economic stability and the promotion of sustainable development. In addition, findings from Ozili (2022) show that the digitalization of banking services has a very significant role in expanding financial inclusion. Digital services, such as mobile banking, e-wallets, online payment platforms, and application-based banking services, allow people in remote or physically difficult-to-reach areas to still get access to formal financial services. This is very important, especially in developing countries, where the gap in access to financial services is still quite large. These technological innovations help banks reach groups of people who were previously marginalized, while also increasing operational efficiency and reducing transaction costs for both customers and the financial institution itself. Thus, technological innovation not only encourages efficiency, but also plays a key role in optimizing the contribution of banking to the achievement of the SDGs, especially SDG 1 regarding poverty eradication, SDG 8 on decent work and economic growth, and SDG 10 on reducing inequality.

Furthermore, the results of the literature analysis highlight that the success of banking in supporting the SDGs is highly dependent on the existence of clear, comprehensive, and supportive regulations for sustainable financial practices. Supportive regulations, such as the application of green taxonomy or green classification standards and sustainable capital market instruments, can provide concrete incentives for banks to allocate more funds and resources to sustainable projects (Yiming et al., 2024). With a supportive regulatory framework, banks can more easily plan green financing strategies, reduce risks related to environmentally unfriendly investments, and ensure that their loan portfolio is in line with the principles of sustainable development. An adaptive regulation can also create a healthy competitive climate, spur product innovation, and encourage the integration of ESG practices into the bank's daily operations. On the other hand, the research also emphasizes the existence of various challenges and obstacles that need to be overcome so that banks can play a maximum role in supporting the SDGs.

Some of these challenges include high credit risk, especially related to MSME financing or green projects that may have uncertain results, relatively high operational costs, and the need for large investments in digital infrastructure to support financial inclusion (Valdiansyah & Widiyati, 2024). These obstacles, if not managed well, can reduce the effectiveness of banks in distributing sustainable financing and expanding financial access for people in need. Therefore, a mature and integrated strategy is needed, including careful risk assessment, portfolio diversification, and product innovation that is in line with the needs of the community and sustainability requirements. In addition, collaboration between banks, regulators, the government, and the private sector is a key factor that determines the effectiveness of banking in achieving the SDGs. This synergy can take the form of policy support, the provision of fiscal incentives, the provision of training and financial literacy, and the development of digital infrastructure that allows financial services to reach all levels of society.

This kind of collaboration not only strengthens the role of banks as development agents, but also ensures that the achievement of the SDGs can be carried out more optimally, inclusively, and sustainably. With a comprehensive approach, banks do not only focus on short-term profitability, but are also able to make a real contribution to social welfare, inclusive economic growth, and environmental protection, all of which are in line with the spirit of the SDGs. Overall, the results of this literature study show that banking has great potential to become the driver of sustainable development through the integration of sustainable finance and financial inclusion.

The success of the implementation of these two pathways will be highly influenced by technological innovation, supportive regulations, effective risk management, and collaboration between stakeholders. With the right strategy, banks can play a strategic role in creating development that is not only economically profitable, but also has a broad positive impact on society and the environment, By adopting comprehensive strategies that integrate effective risk management with sustainability-focused initiatives, banks are able to navigate financial uncertainties more efficiently while maintaining operational stability and resilience. These strategies not only safeguard the institutions themselves but also enhance their credibility and trust among clients and investors who increasingly prioritize environmental, social, and governance (ESG) considerations.

At the same time, by aligning their financial operations with sustainable practices, banks contribute to broader socio-economic goals, supporting equitable access to financial services, encouraging green investments, and promoting responsible lending. In doing so, they play a crucial role in strengthening the foundation of the national economy, guiding it toward a future that is more inclusive, environmentally responsible, and economically sustainable. Through this dual focus on financial prudence and sustainable development, banks can simultaneously achieve long-term stability, foster societal well-being, and contribute meaningfully to national and global sustainability objectives.

5. Discussion

The role of banking in supporting the achievement of the Sustainable Development Goals (SDGs) is not only limited to its traditional function as a financial intermediary institution, which is to collect funds from the public and distribute them to parties in need, but also includes a wider role as an agent of social and environmental change. The results of this study show that banks have the capacity to create significant added value through the application of sustainability strategies that are integrated comprehensively into all of their business lines, from risk management to the development of new products and services. This strategy allows banks to not only increase profitability but also provide a positive contribution to society and the environment more broadly. Nevertheless, the implementation of these sustainability strategies is not easy and still faces various challenges. Some of the main obstacles identified include the limited financial and human resources, the complexity of applicable regulations, and the low level of financial literacy among the public, which can limit the effectiveness of financial inclusion programs (Ariani et al., 2024).

Therefore, a more holistic and collaborative approach is needed between banking, the government, regulators, and civil society so that sustainability programs can run effectively and have a broad impact. This approach not only emphasizes the operational aspects of the bank but also on the formation of an ecosystem that supports sustainable development as a whole. In terms of opportunities, the rapid development of digital technology opens up a very large space for banking to expand the reach of financial services, especially in remote areas that have been physically difficult to reach. Technological innovations, such as mobile banking, fintech, and blockchain, can be utilized as solutions to increase financial inclusion while improving the bank's operational efficiency, minimizing transaction costs, and accelerating public access to formal financial services (Widarwati et al., 2022). However, the use of this technology must be accompanied by adequate consumer protection, data security, and risk management to avoid the emergence of new risks that could harm customers and financial institutions. In addition, banking also plays a role in directing more sustainable consumption and production patterns through selective credit policies and responsible financing strategies. For example, by tightening financing for industries or sectors that have a negative impact on the environment, and expanding access for environmentally friendly sectors that support green development.

This step is not only in line with the SDGs goals but can also increase national economic competitiveness amid the global transition towards a green economy (Chen et al., 2022). In the policy context, the role of regulators becomes very important to provide a clear framework for banks in implementing sustainability strategies. Adaptive regulations, the provision of fiscal incentives, and ease of access to green financing instruments can accelerate the contribution of banking to the achievement of the SDGs. In addition, transparency, accountability, and good reporting are key aspects that must be strengthened so that ESG principles are not just rhetoric, but truly create a real impact on society, the environment, and the economy as a whole. Overall, banking has great potential to be the driver of sustainable development. However, this potential can only be realized if there is a close synergy between technological innovation, supportive regulations, and the active participation of the public. With an integrated approach, banks not only play a role as a financial intermediary institution but also as a development agent capable of directing the national economy toward a future that is more inclusive, sustainable, and prosperous socially and environmentally.

6. Conclusion

Based on the results of this study, it can be affirmed that banking has a very strategic and crucial role in supporting the achievement of the Sustainable Development Goals (SDGs) through the application of sustainable financial practices and the overall improvement of financial inclusion. Sustainable finance allows banks to channel financing and support environmentally friendly projects, including renewable energy initiatives, green transportation, and sustainable natural resource management, while integrating Environmental, Social, and Governance (ESG) principles into their entire business portfolio and operational activities. Meanwhile, financial inclusion opens up wider access to financial services for low-income communities and Micro, Small, and Medium Enterprises (MSMEs), thus contributing significantly to poverty reduction, social welfare improvement, and inclusive economic growth.

Nevertheless, the implementation of this sustainability strategy still faces various significant challenges, including the limited comprehensive regulations, credit risk inherent in MSME financing, and the need for large investments to support digital transformation and technological innovation. Therefore, it is very important to create a close and collaborative synergy between banks, regulators, the government, and civil society so that the contribution of banking to the achievement of the SDGs can be carried out optimally. With an innovative, integrated, and collaborative approach, banking not only has the potential to become the driver of economic development, but is also able to provide a broad positive impact on the environment and social welfare, in accordance with the spirit and targets of the SDGs 2030.

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